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The Italian Civil Aviation market is facing a period of difficult decisions which will probably lead to major changes in the near future: on one side, Alitalia, the national flag carrier, is seeking its own way among the competing giant airline combinations and therefore is endeavoring to pursue strategic alliances worldwide; on the other hand, Finmeccanica, the financial holding with substantial interests in the Aerospace sector with industries like Alenia and Agusta, is in the middle of political and industrial changes, and is seeking to maintain and develop its presence in the European aerospace sector (in particular the Airbus Consortium), where Italy ranks fourth, while keeping its industrial identity. Finmeccanica management is well aware that to achieve this second goal it is necessary to strengthen the cooperation with the U.S. industry. U.S. companies seeking to penetrate or to expand their existing market in Italy should therefore closely follow both Alitalia's policy developments and Finmeccanica's medium term industrial plans.

In the past few years, the Italian Civil Aviation sector has seen important changes, and is undergoing a significant restructuring, which has led to lay-offs of almost 15,000 people, down to the actual 34,000, mainly in the manufacturing industry, which is now concentrated in two industrial poles: Finmeccanica and Fiat. As regards Alitalia, it has reached a joint venture agreement with the Dutch KLM and the American Northwest. This agreement will help optimize resources and create operational synergies in order to better compete against other giant alliances worldwide. The Civil Aviation market is therefore showing signs of recovery after a period of general contraction which also affected the national economic scenario.

As of January, 1998, Alitalia's fleet comprised 148 airplanes, 81 of which were operated by Alitalia, and the rest by its related companies Alitalia Team (54) and Alitalia Express (13). The majority of these aircraft were MD-80 (90), while the balance included: A-321 (20); B-747 (11); ATR-42 (9); MD-11 (8); B-767 (6) and ATR-72 (4). Average age of these aircraft is 8.6 years, which makes the fleet one of the youngest in Europe. In the latest

shareholder meetings held last June, Alitalia management announced the purchase of five new B747s, to be delivered by the first half of 2001, and the company's interest in acquiring a number of new 50/70 seater regional-jets, some of which as substitutes for older ATR-42.

Other national companies (Air-One, Meridiana, Azzurra, Lauda Air, Air Europe, Med Airlines, and Air Sicilia and several smaller ones), together operate nearly 150 additional aircraft, mostly on national routes or charter connections with foreign destinations.

Furthermore, by the end of 1998, there were in Italy approximately 900 airplanes belonging to aeroclubs and about 650 owned by private associations. As for business planes, Italy ranks among the top countries in Europe, with over 300 aircraft in use (turbofan, turbojets and turboprops).

The increasing demand for regional and national flights has been influenced by the dissatisfaction of many business users with the state-owned railways, which offer below standard services. Many of these short routes are actually covered by a small fleet of ATR-42s and ATR-72s turboprops, which are manufactured by Alenia in cooperation with Aerospatiale and have gained a very positive reputation. However, the need for increased passenger capacity as well as higher flexibility and speed has led both the industry and the air carriers to seek possible alternatives. Alenia, in particular, has been seeking, so far unsuccessfully, European partners for the co-production of 70/100 seater class jet-propelled airplanes. This could provide an opportunity to U.S. manufacturers.

U.S. manufacturers have virtually abandoned the market for small, single engine aircraft, leaving the French to dominate this sector of the market, with the Germans specializing in turbo engines. However, the U.S. know-how remains unparalleled, and there is still a broad range and a fairly large number of U.S. aircraft in use. U.S. companies producing light aircraft, jet engines and piston and turboprop engines of innovative design still have good opportunities in this expanding market, provided that the following conditions are met: availability (possibly in Italy) of after-sale services, and the possibility to set up medium to long term financing (generally 36 to 60 months) at competitive rates. There are also aeronautical financial services companies which can provide leasing terms that respond to the needs of the market.

Following are some key contacts for general reference:

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RAI Registro Aeronautico Italiano (Italian Airworthiness Authority)

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